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**TACKLING NATIONAL PRIORITIES WHILE INCREASING REGIONAL TIES**

# How ASEAN should navigate a tricky 2016

Many turbulent events in 2015 were symptoms of a world lacking in optimism and growth, and facing possible changes in the global order. Even as social and economic uncertainties continue, competition is increasing among major powers, especially between the US and China.

There is not much that smaller countries can do to directly change these tectonic trends. There is every danger instead that countries in South-east Asia in particular will face great pressure in a growing push-and-pull among the global powers. Yet, smaller countries are not blank pieces of paper on which a global power can simply write at will. Domestic politics matter, and this will be evident in the year ahead in a number of key regional countries. Consider Indonesia and Thailand, the region's two largest economies, and Myanmar, which has emerged as a promising "frontier" market.

Indonesia must hope 2016 will be better. While the Indonesian economy is projected to have grown over 4 per cent last year, economic growth has notably slowed, and its macro economics remain relatively weak, as reflected in the rupiah's plunge. Given the flat-to-poor outlook for the resource sector, moving ahead with infrastructure and industrialisation is key to growth and job creation.

Yet, political signals have been less than positive. The popularly elected President Joko Widodo has struggled to lead effectively, pegged back by the opposition and different factions within his own party. Worse, increasingly



An integrated ASEAN market with some 600 million consumers can be competitive and offer considerable opportunities. PHOTO: AP

assertive and narrow "nationalistic" voices are putting off many potential foreign investors.

The forest fires and haze pollution — and 2015 was one of the worst fire seasons ever — are an emblem of further problems. Estimates are that Indonesia lost some US\$22 billion (S\$31.5 billion) in economic production and health care, while millions of people suffered, both in Indonesian provinces and in neighbouring countries. As the fires release an enormous amount of greenhouse gases into the atmosphere, international condemnation will only grow if the issue is not effectively addressed.

Thailand, the region's second larg-

est economy, also had a poor 2015. The 2014 military coup was at first cheered domestically for ending months of stalemate. But since then, there have been very limited signs of political reconciliation and the economy has slowed markedly. Production costs in Thailand have risen, and the pressure of external sanctions and criticisms has increased, especially from erstwhile ally America.

The Prayuth Chan-o-cha government has to move ahead effectively, beyond patching problems, to steer the country towards newer paths. Thailand's manufacturing capability and infrastructure need to be re-strengthened and new growth sectors must be pushed. If the junta cedes to elections within the year, as some speculate, another political transition will further complicate the outlook for Thailand.

In comparison, Myanmar had a good year, capping a remarkable transition to democracy with an overwhelming general election victory for the National League for Democracy (NLD). Questions, however, remain and the year ahead will see if the new government can effectively make the transition from opposition to government. This is especially as constitutional provisions prevent iconic NLD leader Aung San Suu Kyi from serving as President and an acceptable nominee must be proposed.

Despite the electoral mandate, accommodation with the military is still needed. It continues to hold seats in Parliament and to run ministries key to security and any settlement with warring ethnic minorities in border areas. Myanmar's economic growth in 2015 was in the region of 8 per cent, albeit from a low base. Further progress will require not only the right promises and policies, but the ability to deliver on the economic opening and reforms. Many challenges remain, especially with infrastructure and the financial system.

On top of such national issues, there are also regional dynamics at play. At the end of 2015, the ASEAN (Association of South-east Asian Nations) Community was inaugurated. The ambitions are to move further ahead to integrate economically, cooperate more closely on politics and security, and increase social and cultur-

al understanding among the groups' 10 diverse countries.

National priorities will drive the regional ones, rather than the other way around. With slower growth, the trend is that narrow nationalism seeks to preserve markets for the locals, rather than integrate with neighbours. On top of economic flows, the movement of peoples beyond borders is also proving sensitive, especially with allegations of mistreatment and human trafficking.

However, if ASEAN can be better integrated and more united, the group can play a central role in the wider region that is accepted by the major powers. An integrated ASEAN market with some 600 million consumers can also be competitive and offer considerable opportunities.

Two non-ASEAN countries will continue to play key roles in the region's economy: Japan and China. There is optimism that in Japan, traditionally the key economic partner, Abenomics can revitalise the economy. China trade is, however, now dominant in the region, and further waves of infrastructure and other investment are expected with the creation of the Asian Infrastructure Investment Bank and President Xi Jinping's vision of One Belt, One Road.

Engaging with China and Japan can serve ASEAN well. Already, there are signs of Sino-Japanese competition in partnering countries in the region, most visibly over plans to build railways in Indonesia, Thailand, and between Malaysia and Singapore.

Such competition need not be negative. A positive competition can lead to better projects on the best-possible terms so that the region is better connected with a foundation for closer integration. Overall relations with both China and Japan can prosper and the parties involved need not see things as a win-lose, negative competition.

There is, however, a need to manage the politics and processes so that national and ASEAN-centred priorities are emphasised, and the best choices made. Otherwise, donor-driven agendas might be ill fitting, and other concerns will rise about unequal power relations and corruption.

US-China competition in the world and Sino-Japanese competition in the region are increasingly visible. Yet, despite and even because of this swirl, there are opportunities.

ASEAN growth continues to outperform globally. For ASEAN countries, one key for progress will be to deal with their national priorities while increasing intra-ASEAN unity and cooperation, and remaining central to the wider region.

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